

**GREAT NORTHERN IRON  
ORE PROPERTIES**

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**NINETY-NINTH  
ANNUAL REPORT OF THE TRUSTEES  
TO CERTIFICATE HOLDERS**

**FOR  
YEAR ENDED DECEMBER 31, 2005**

# **GREAT NORTHERN IRON ORE PROPERTIES**

W-1290 First National Bank Building  
332 Minnesota Street  
Saint Paul, Minnesota 55101-1361

(651) 224-2385  
Fax (651) 224-2387

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## **TRUSTEES**

JOSEPH S. MICALLEF  
President of the Trustees

ROGER W. STAEHLE\*

ROBERT A. STEIN\*

JOHN H. ROE, III\*

\*Audit Committee

## **OFFICERS**

JOSEPH S. MICALLEF  
Chief Executive Officer

THOMAS A. JANOCHOSKI  
Chief Financial Officer  
Vice President & Secretary

ROGER P. JOHNSON  
Chief Engineer  
Manager of Mines

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## **SHAREHOLDER RELATIONS DEPARTMENT, TRANSFER OFFICE AND REGISTRAR**

Wells Fargo Bank, N.A.  
P.O. Box 64854  
Saint Paul, Minnesota 55164-0854  
Toll-free: 1-800-468-9716

## **MESABI IRON RANGE OFFICE**

801 East Howard Street  
Hibbing, Minnesota 55746-0429  
(218) 262-3886  
Fax (218) 262-4295

**GREAT NORTHERN IRON ORE PROPERTIES**  
**SUMMARY OF OPERATIONS**

	Year Ended December 31				
	2005	2004	2003	2002	2001
Shipments from our mines (tons) . . . . .	8,673,198	9,167,200	9,772,338	7,094,446	5,677,672
Royalty income . . . . .	\$17,998,451	\$14,141,775	\$11,800,870	\$ 9,141,886	\$ 9,810,504
Other income . . . . .	\$ 362,761	\$ 305,623	\$ 382,534	\$ 443,763	\$ 590,286
Net income . . . . .	\$15,720,620	\$12,242,010	\$ 9,967,544	\$ 7,661,762	\$ 8,646,878
Total assets . . . . .	\$19,455,519	\$18,407,999	\$17,413,589	\$16,873,663	\$17,455,283
Average shares outstanding . . . . .	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Earnings per share, based on weighted-average shares outstanding during the year . . . . .	\$ 10.48	\$ 8.16	\$ 6.65	\$ 5.11	\$ 5.76
Declared distributions per share . . . . .	\$ 10.40 <sup>(1)</sup>	\$ 8.20 <sup>(2)</sup>	\$ 6.50 <sup>(3)</sup>	\$ 5.40 <sup>(4)</sup>	\$ 6.00 <sup>(5)</sup>

(1) \$2.20 pd 4/29/05; \$2.40 pd 7/29/05; \$2.80 pd 10/31/05; \$3.00 pd 1/31/06

(2) \$1.80 pd 4/30/04; \$1.90 pd 7/30/04; \$2.10 pd 10/29/04; \$2.40 pd 1/31/05

(3) \$1.50 pd 4/30/03; \$1.60 pd 7/31/03; \$1.70 pd 10/31/03; \$1.70 pd 1/30/04

(4) \$1.10 pd 4/30/02; \$1.40 pd 7/31/02; \$1.40 pd 10/31/02; \$1.50 pd 1/31/03

(5) \$1.40 pd 4/30/01; \$1.50 pd 7/31/01; \$1.50 pd 10/31/01; \$1.60 pd 1/31/02

## **Trustees' & Management's Discussion and Analysis of Financial Condition and Results of Operations**

Overview: Great Northern Iron Ore Properties ("Trust") is a conventional nonvoting trust organized under the laws of the State of Michigan pursuant to a Trust Agreement dated December 7, 1906. The Trust owns interests in fee, both mineral and nonmineral lands, on the Mesabi Iron Range in northern Minnesota. With the properties and offices all located in Minnesota, the Trust is under the jurisdiction of the Ramsey County District Court in Saint Paul, Minnesota.

The terms of the Great Northern Iron Ore Properties Trust Agreement, created December 7, 1906, state that the Trust shall continue for twenty years after the death of the last surviving of eighteen persons named in the Trust Agreement. The last survivor of these eighteen named in the Trust Agreement died April 6, 1995. Accordingly, the Trust terminates twenty years from April 6, 1995.

At the end of the Trust, that being April 6, 2015, the certificates of beneficial interest (shares) in the Trust will cease to trade on the New York Stock Exchange and thereafter will represent only the right to receive certain distributions payable to the certificate holders of record at the time of the termination of the Trust. Upon termination, the Trust is obligated to distribute ratably to these certificate holders the net monies remaining in the hands of the Trustees (after paying and providing for all expenses and obligations of the Trust), plus the balance in the Principal Charges account (see Note D of the Financial Statements). All other Trust property (most notably the Trust's mineral properties) must be conveyed and transferred to the reversioner (currently Glacier Park Company, a wholly owned subsidiary of Burlington Resources, Inc.) under the terms of the Trust Agreement.

The exact final distribution, though not determinable at this time, will generally consist of the sum of the Trust's net monies (essentially, total assets less liabilities and properties) and the balance in the Principal Charges account, less any and all expenses and obligations of the Trust upon termination. To offer a hypothetical example, without factoring in any expenses and obligations of the Trust upon its termination, and using the financial statement values as of December 31, 2005, the net monies were approximately \$10.5 million and the Principal Charges account balance was approximately \$5.3 million, resulting in a final distribution payable of approximately \$15.8 million, or about \$10.53 per share. After payment of this final distribution, the certificates of beneficial interest (shares) would be cancelled and will have no further value. It is important to note, however, that the actual net monies on hand and the Principal Charges account balance will most likely fluctuate during the ensuing years and will not be "final" until after the termination and wind-down of the Trust. We offer this example to further inform investors about the conceptual nature of the final distribution and do not imply or guarantee a specific known final distribution amount.

The Trust is solely involved with the leasing and care of its properties. The management of the Trust is vested in the Trustees. The Trustees have no duty to

sell property unless required to do so to serve both the term beneficiaries and reversionary beneficiary impartially; and, if the need arises, the Trustees may petition the Court for further instructions defining what is required in a particular case to balance the interests of the certificate holders and reversioner. The major source of income to the Trust is earned royalties derived from taconite production from the Trust's properties by the Trust's lessees (customers) and minimum royalties, pursuant to mineral leases. "Earned royalties" are based on the taconite tonnage extracted (also referred to as produced or shipped) from the Trust's lands applied to a royalty rate as defined in the various specific and confidential operating agreements (also referred to as leases) with the Trust's lessees. Certain leases have "minimum royalty" provisions that require payment to the Trust for holding the leasehold interest. The leases are generally very long-term in nature and, while they periodically are amended at the request of a lessee, the Trust is bound by the lease provisions throughout the term of the lease.

Pursuant to a Court Order in 1988, the Trustees filed an election under Section 646 of the Internal Revenue Code with the Internal Revenue Service that allowed the Trust to be taxed as a grantor trust versus a corporation. Accordingly, certificate holders (shareholders) are taxed on their allocable share of the Trust's income whether or not the income is distributed. A Tax Return Guide is prepared by the Trust and mailed annually to investors, which is intended to assist them in their preparation of their income tax returns with respect to income allocated from the Trust.

Results of Operations: "Royalty income" for 2005 was greater than that of 2004 primarily due to greater net minimum royalties and increases in our royalty rates due to escalation of producer price indices, offset in part by a decrease in tonnage mined from Trust lands. "Royalty income" for 2004 was greater than that of 2003 mainly due to increases in our royalty rates due to escalation of producer price indices. "Other income" for 2005 was greater than that of 2004 primarily due to an overall improved yield on our funds held for investment. "Other income" for 2004 was less than that of 2003 mainly due to an overall reduced yield on our funds held for investment. "Net income" for 2005 was the highest in the history of the Trust, greater than that of 2004, primarily due to increased Royalty income (as explained above), offset in part by additional pension costs associated with funding the plan and expensing these costs by the Trust's termination date. "Net income" for 2004 was greater than that of 2003 mainly due to increased Royalty income (as explained above).

Liquidity: In the interest of preservation of principal of Court-approved reserves and guided by the restrictive provisions of Section 646 of the Tax Reform Act of 1986, as amended, monies are invested primarily in United States Treasury securities with maturity dates not to exceed three years and, along with cash flows from operations, are deemed adequate to meet currently foreseeable liquidity needs. The only contractual obligations are operating leases for office facilities (see

Note G of the Financial Statements) and deferred compensation listed as Noncurrent Liabilities in the Balance Sheet, both deemed to have a minimal effect on future liquidity.

Critical Accounting Policies: *Royalties* from the Trust's mineral leases are taken into income as earned. Tonnage extracted is agreed upon between Trust and lessee engineers based on various engineering methods. Many of the leases provide for escalation or de-escalation that, for the most part, is based on independent producer price indices as published by the U.S. Department of Labor — Bureau of Labor Statistics. In addition, a number of the Trust's leases have minimum royalty provisions that require the lessee to pay the Trust a payment for holding the leasehold interest, regardless of production. These minimum royalties can accumulate and do provide the mining companies the ability to offset excess royalties (over the minimum royalty requirements) on future taconite production. Minimum royalties, if not recovered before the termination of the lease, are forfeitable. In that event, no minimum royalties will be returned to the lessee.

*Pension Plan Valuations* are based on a number of assumptions used to determine the benefit obligation and asset valuation. These assumptions are evaluated annually by the Trustees and management in conjunction with outside actuaries. Assumptions affecting the pension plan valuations include the discount rate, compensation increase level and expected long-term rate of return. These assumptions reflect and incorporate the expected cash flow payouts of the pension plan given the determinate time frame to the termination of the Trust. Please refer to Note E of the Financial Statements for additional pension plan information.

The *Principal Charges account* represents a first and prior lien of certificate holders on any property transferable to the reversioner at the end of the Trust and reflects an allocation of beneficiaries' equity between the certificate holders and the reversioner. This Court-ordered account is neither an asset nor a liability of the Trust. Rather, this account maintains and represents a balance which will be payable to the certificate holders of record from the reversioner at the end of the Trust. The account balance, as stated in Note D of the Financial Statements, primarily represents the costs of acquiring homes and surface lands in accordance with provisions of a lease with United States Steel Corporation. This account balance, which may increase or decrease, will be added to the cash distributable to the certificate holders of record at the termination of the Trust.

Forward-Looking and Cautionary Statements: Certain expectations and projections regarding future performance of the Trust referenced in this report are forward-looking statements. These expectations and projections are based on currently available industry and financial data and may be subject to certain events and uncertainties beyond the Trust's control. We caution readers that in addition to factors described elsewhere in this report, the following factors and comments, among others, could cause the Trust's operations and financial results to differ materially from the expectations and projections contained in the forward-looking statements.

The Trust's *lessees (customers)* primarily include Minntac and Keewatin Taconite Company ("Keetac"), owned and operated by United States Steel Corporation, and Hibbing Taconite Company ("Hibtac"), owned by Mittal Steel USA, Cleveland Cliffs Inc. and Stelco, and operated by Cleveland Cliffs Inc. Because the Trust's revenues are primarily dependent upon a limited number of customers, there are associated inherent risks resulting therefrom. While the steel and taconite industries are generally having good years, any significant adverse event at any of the Trust's primary lessees, or the loss of any of the Trust's primary lessees, could materially adversely affect the Trust's future financial results.

A decline in *market demand* for steel, and correspondingly taconite, could adversely affect the Trust's financial results. However, other related and sometimes compensating factors include the Trust's lessees' operating levels, ore body quality, metallurgical and geological characteristics, proximity of Trust lands, extreme weather conditions and labor contracts at the mines. Though the Trust is not a party to these labor contracts, all pertinent labor contracts affecting production from Trust lands have been ratified by the steelworkers and extend until mid-2008.

*Royalty rates* can fluctuate due to the escalation and de-escalation of producer price indices as a result of provisions present in many of the Trust's leases. To the extent these indices decline (All Commodities or the Iron and Steel subgroup), royalty rates, and correspondingly royalty income, could be adversely affected. Conversely, higher producer price indices may increase royalty rates and royalty income.

*Compliance with Section 646 of the Internal Revenue Code*, as explained in Note F of the Financial Statements, is integral to the level of distributions paid to the certificate holders. Should it be determined that the Trust violated the requirements of Section 646, it would be taxed as a corporation versus a grantor trust. This would mean the Trust's income would be taxable upon receipt by the Trust and again upon receipt by the certificate holders. It is the Trustees' opinion, based on independent tax firm reviews, that the Trust has remained in compliance with the provisions of Section 646 since its election in 1988.

The *outlook* for 2006 is that we expect taconite production from Trust lands to be lower than that of 2005, resulting in lower anticipated earnings than the record year of 2005. Nevertheless, we think historically that 2006 will be another good year for the Trust.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Great Northern Iron Ore Properties ("Trust") is responsible for establishing and maintaining adequate internal control over financial reporting. The Trust's internal control system was designed to provide reasonable assurance to the Trust's management and Board of Trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Trust's management assessed the effectiveness of the Trust's internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth in a report by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") on Internal Control — Integrated Framework. Based on our assessment, we believe that, as of December 31, 2005, the Trust's internal control over financial reporting is effective based on the COSO criteria.

The Trust's Independent Registered Public Accounting Firm, Ernst & Young LLP, has issued an audit report on our assessment of the Trust's internal control over financial reporting. Their report appears on pages 21 and 22.

Respectfully submitted,

Joseph S. Micallef,  
Chief Executive Officer and  
President of the Trustees

Thomas A. Janochoski,  
Chief Financial Officer and  
Vice President & Secretary

Letter to Certificate Holders:

The Trustees of Great Northern Iron Ore Properties (“Trust”) own fee title to certain mineral and nonmineral lands situated on the Mesabi Iron Range of Minnesota. Many of these properties are leased to companies that mine the mineral lands for taconite iron ore. The Trust has no subsidiaries.

During 2005, the major source of income to the Trust was royalty income derived from taconite production and minimum royalties. Certain leases provide the mining companies the ability to offset excess royalties due on future production, if any and when mined, against minimum royalties paid in prior periods. Accumulated minimum royalties amounted to \$3,288,083 on December 31, 2005. A “Summary of Shipments” is tabulated on the last page of this report.

The Trustees declared four quarterly distributions in 2005 totaling \$10.40 per share. The first, in the amount of \$2.20 per share, was paid on April 29, 2005, to certificate holders of record on March 31, 2005; the second, in the amount of \$2.40 per share, was paid on July 29, 2005, to certificate holders of record on June 30, 2005; the third, in the amount of \$2.80 per share, was paid on October 31, 2005, to certificate holders of record on September 30, 2005; and the fourth, in the amount of \$3.00 per share, was paid on January 31, 2006, to certificate holders of record on December 30, 2005.

The Trustees declared four quarterly distributions in 2004 totaling \$8.20 per share. The first, in the amount of \$1.80 per share, was paid on April 30, 2004, to certificate holders of record on March 31, 2004; the second, in the amount of \$1.90 per share, was paid on July 30, 2004, to certificate holders of record on June 30, 2004; the third, in the amount of \$2.10 per share, was paid on October 29, 2004, to certificate holders of record on September 30, 2004; and the fourth, in the amount of \$2.40 per share, was paid on January 31, 2005, to certificate holders of record on December 31, 2004.

The Trustees intend to continue quarterly distributions and set the record date as of the last business day of each quarter. The next distribution will be paid in late April 2006 to certificate holders of record on March 31, 2006.

Shares of beneficial interest in the Trust are traded on the New York Stock Exchange under the ticker symbol “GNI” (CUSIP No. 391064102). There were 1,480 certificate holders of record on December 31, 2005. The high and low prices for the quarterly periods commencing January 1, 2004, through December 31, 2005, inclusive, were as follows:

<u>Quarter</u>	<u>2005</u>		<u>2004</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First .....	\$142.09	\$101.00	\$ 98.50	\$84.00
Second .....	123.50	93.00	101.00	88.26
Third .....	124.50	101.00	120.00	96.03
Fourth .....	141.00	113.00	127.75	96.30

The following is a summary of quarterly results of operations (unaudited) for the years ended December 31, 2005 and 2004 (in thousands of dollars, except per share amounts):

	<b>Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>
<b>2005</b>				
Royalty income .....	\$4,296	\$5,257	\$4,213	\$4,232
Interest and other income .....	<u>95</u>	<u>72</u>	<u>90</u>	<u>106</u>
Gross income .....	4,391	5,329	4,303	4,338
Expenses .....	<u>646</u>	<u>675</u>	<u>622</u>	<u>697</u>
Net income .....	<u>\$3,745</u>	<u>\$4,654</u>	<u>\$3,681</u>	<u>\$3,641</u>
Earnings per share .....	<u>\$ 2.50</u>	<u>\$ 3.10</u>	<u>\$ 2.45</u>	<u>\$ 2.43</u>
<b>2004</b>				
Royalty income .....	\$3,467	\$3,985	\$3,525	\$3,165
Interest and other income .....	<u>77</u>	<u>50</u>	<u>108</u>	<u>70</u>
Gross income .....	3,544	4,035	3,633	3,235
Expenses .....	<u>628</u>	<u>526</u>	<u>526</u>	<u>525</u>
Net income .....	<u>\$2,916</u>	<u>\$3,509</u>	<u>\$3,107</u>	<u>\$2,710</u>
Earnings per share .....	<u>\$ 1.94</u>	<u>\$ 2.34</u>	<u>\$ 2.07</u>	<u>\$ 1.81</u>

As previously reported, Section 646 of the Tax Reform Act of 1986, as amended, provided a special elective provision under which the Trust was allowed to convert from taxation as a corporation to that of a grantor trust. Pursuant to an Order of the Ramsey County District Court, the Trustees filed the Section 646 election with the Internal Revenue Service on December 30, 1988. For years 1989 and thereafter, certificate holders are taxed on their allocable share of the Trust's income whether or not the income is distributed.

A Tax Return Guide was mailed in January 2006 to all "record date" certificate holders shown on our stock transfer agent's records during 2005. This guide was intended to assist the investor in addressing many of the issues that arise in reporting the Trust operations for federal and state income tax purposes due to Section 646.

We will, upon request, be happy to furnish certificate holders an Annual Report on Form 10-K and a Tax Return Guide for any recent year.

Respectfully submitted,

Joseph S. Micallef      Roger W. Staehle  
Robert A. Stein        John H. Roe, III

Saint Paul, Minnesota  
January 27, 2006

**GREAT NORTHERN IRON ORE PROPERTIES**  
**STATEMENTS OF INCOME**

	Year Ended December 31		
	2005	2004	2003
<b>REVENUES</b>			
Royalties .....	\$17,998,451	\$14,141,775	\$11,800,870
Interest earned .....	252,037	179,806	214,072
Rent and other .....	110,724	125,817	168,462
	18,361,212	14,447,398	12,183,404
<b>EXPENSES</b>			
Royalties .....	4,623	4,623	4,623
Real estate and payroll taxes .....	139,090	129,744	140,840
Inspection and care of property .....	531,830	524,695	506,291
Administrative and general .....	1,723,535	1,302,100	1,317,476
Provision for depreciation and amortization .....	241,514	244,226	246,630
	2,640,592	2,205,388	2,215,860
<b>NET INCOME</b> .....	\$15,720,620	\$12,242,010	\$ 9,967,544
<b>EARNINGS PER SHARE</b> .....	\$ 10.48	\$ 8.16	\$ 6.65

**STATEMENTS OF BENEFICIARIES' EQUITY**

	Year Ended December 31		
	2005	2004	2003
Balance at beginning of year .....	\$14,683,943	\$14,741,933	\$14,524,389
Net income for the year .....	15,720,620	12,242,010	9,967,544
	30,404,563	26,983,943	24,491,933
Deduct declaration of distributions on shares of beneficial interest, per share: 2005 — \$10.40; 2004 — \$8.20; 2003 — \$6.50 .....	15,600,000	12,300,000	9,750,000
Balance at end of year .....	\$14,804,563	\$14,683,943	\$14,741,933

See accompanying notes.

# GREAT NORTHERN IRON ORE PROPERTIES

## BALANCE SHEETS

### ASSETS

	December 31	
	2005	2004
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	\$ 774,916	\$ 788,779
United States Treasury securities ( <i>Note B</i> ) .....	6,209,745	4,788,363
Royalties receivable .....	3,881,737	2,834,944
Prepaid expenses .....	2,110	2,760
<b>TOTAL CURRENT ASSETS</b> .....	10,868,508	8,414,846
<b>NONCURRENT ASSETS</b>		
United States Treasury securities ( <i>Note B</i> ) .....	3,391,684	4,619,534
Prepaid pension expense ( <i>Note E</i> ) .....	855,340	941,327
	4,247,024	5,560,861
<b>PROPERTIES</b>		
Mineral and surface lands ( <i>Notes B and C</i> ) .....	38,691,707	38,587,307
Less allowances for depletion and amortization ..	34,499,185	34,289,965
	4,192,522	4,297,342
Building and equipment — at cost, less allowances for accumulated depreciation (2005 — \$223,654; 2004 — \$214,287) .....	147,465	134,950
	4,339,987	4,432,292
	\$19,455,519	\$18,407,999

### LIABILITIES AND BENEFICIARIES' EQUITY

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses .....	\$ 90,156	\$ 81,756
Distributions .....	4,500,000	3,600,000
<b>TOTAL CURRENT LIABILITIES</b> .....	4,590,156	3,681,756
<b>NONCURRENT LIABILITIES</b> .....	60,800	42,300
<b>BENEFICIARIES' EQUITY</b> , including certificate holders' equity, represented by 1,500,000 shares of beneficial interest authorized and outstanding, and reversionary interest ( <i>Notes A and D</i> ) .....	14,804,563	14,683,943
	\$19,455,519	\$18,407,999

See accompanying notes.

**GREAT NORTHERN IRON ORE PROPERTIES**  
**STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>OPERATING ACTIVITIES</b>			
Cash received from royalties and rents . . . . .	\$ 16,957,982	\$ 13,665,771	\$12,361,792
Cash paid to suppliers and employees . . . . .	(2,285,541)	(2,087,987)	(2,050,743)
Interest received . . . . .	202,093	188,621	272,497
<b>NET CASH PROVIDED BY</b>			
<b>OPERATING ACTIVITIES</b> . . . . .	14,874,534	11,766,405	10,583,546
<b>INVESTING ACTIVITIES</b>			
United States Treasury securities purchased . . .	(5,232,326)	(4,297,396)	(5,075,000)
United States Treasury securities matured . . .	5,088,738	3,725,000	4,175,000
Net expenditures for building and equipment . .	(44,809)	(11,629)	(40,377)
<b>NET CASH USED IN</b>			
<b>INVESTING ACTIVITIES</b> . . . . .	(188,397)	(584,025)	(940,377)
<b>FINANCING ACTIVITIES</b>			
Distributions paid . . . . .	(14,700,000)	(11,250,000)	(9,450,000)
<b>NET CASH USED IN</b>			
<b>FINANCING ACTIVITIES</b> . . . . .	(14,700,000)	(11,250,000)	(9,450,000)
<b>NET (DECREASE) INCREASE IN CASH</b>			
<b>AND CASH EQUIVALENTS</b> . . . . .	(13,863)	(67,620)	193,169
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT BEGINNING OF YEAR</b> . . . . .	788,779	856,399	663,230
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT END OF YEAR</b> . . . . .	\$ 774,916	\$ 788,779	\$ 856,399
<b>RECONCILIATION OF NET INCOME TO NET</b>			
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net income . . . . .	\$ 15,720,620	\$ 12,242,010	\$ 9,967,544
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization . . . . .	241,514	244,226	246,630
Net (increase) decrease in assets:			
Accrued interest . . . . .	(49,944)	8,815	58,425
Royalties receivable . . . . .	(1,046,793)	(591,521)	392,460
Prepaid expenses . . . . .	86,637	(129,225)	(103,895)
Surface lands . . . . .	(104,400)	(10,300)	—
Net increase in liabilities:			
Accrued liabilities . . . . .	26,900	2,400	22,382
<b>NET CASH PROVIDED BY</b>			
<b>OPERATING ACTIVITIES</b> . . . . .	\$ 14,874,534	\$ 11,766,405	\$10,583,546

See accompanying notes.

**GREAT NORTHERN IRON ORE PROPERTIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE A — BUSINESS AND TERMINATION OF THE TRUST  
AND LEGAL PROCEEDINGS**

Great Northern Iron Ore Properties (“Trust”) is presently involved solely with the leasing and maintenance of mineral and nonmineral lands owned by the Trust on the Mesabi Iron Range of Minnesota. Royalty income is derived from taconite production and minimums. Royalty income (which is not in direct ratio to tonnage shipped) from two significant operating lessees was as follows: 2005 — \$11,930,000 and \$6,068,000; 2004 — \$8,942,000 and \$5,197,000; and 2003 — \$9,048,000 and \$2,714,000.

The terms of the Great Northern Iron Ore Properties Trust Agreement, created December 7, 1906, state that the Trust shall continue for twenty years after the death of the last surviving of eighteen persons named in the Trust Agreement. The last survivor of these eighteen named in the Trust Agreement died April 6, 1995. Accordingly, the Trust terminates twenty years from April 6, 1995.

At the end of the Trust, that being April 6, 2015, the certificates of beneficial interest (shares) in the Trust will cease to trade on the New York Stock Exchange and thereafter will represent only the right to receive certain distributions payable to the certificate holders of record at the time of the termination of the Trust. Upon termination, the Trust is obligated to distribute ratably to these certificate holders the net monies remaining in the hands of the Trustees (after paying and providing for all expenses and obligations of the Trust), plus the balance in the Principal Charges account (see Note D). All other Trust property (most notably the Trust’s mineral properties) must be conveyed and transferred to the reversioner under the terms of the Trust Agreement.

In proceedings commenced in 1972, the Minnesota Supreme Court determined that while by the terms of the Trust, the Trustees are given discretionary powers to convert Trust assets to cash and to distribute the proceeds to certificate holders, they are limited in their exercise of those powers by the legal duty imposed by well-established law of trusts to serve the interests of both term beneficiaries and the reversionary beneficiary with impartiality. Thus, the Trustees have no duty to exercise the powers of sale and distribution unless required to do so to serve both term and reversionary interests; and, if the need arises, the Trustees may petition the District Court of Ramsey County, Minnesota, for further instructions defining what is required in a particular case to balance the interests of certificate holders and reversioner. Also, the Court, in effect, held that the Trust is a conventional trust, rather than a business trust, and must operate within the framework of well-established trust law.

**NOTE A — BUSINESS AND TERMINATION OF THE TRUST  
AND LEGAL PROCEEDINGS (continued)**

By a letter dated March 9, 2005, certificate holders of record as of December 31, 2004, and the reversioner were notified of a Hearing on June 1, 2005, in Ramsey County Courthouse, Saint Paul, Minnesota, for the purpose of settling and allowing the Trust accounts for the year 2004. By Court Order signed and dated June 1, 2005, the 2004 accounts were settled and allowed in all respects. By previous Orders, the Court settled and allowed the accounts of the Trustees for preceding years of the Trust.

By a letter dated September 1, 2005, certificate holders of record as of June 30, 2005, and the reversioner were notified of a Hearing on October 19, 2005, in Ramsey County Courthouse, Saint Paul, Minnesota, for the purpose of requesting increases in Trustee compensation. By Court Order signed and dated October 20, 2005, the Court granted the requested fee increase of \$10,000 per annum for each Trustee (including the President), effective July 1, 2005, and, further, granted the requested potential bonus increase of \$10,000 per annum for the President of the Trustees, effective for the year 2005.

As previously reported, Section 646 of the Tax Reform Act of 1986, as amended, provided a special elective provision under which the Trust was allowed to convert from taxation as a corporation to that of a grantor trust. Pursuant to an Order of the Ramsey County District Court, the Trustees filed the Section 646 election with the Internal Revenue Service on December 30, 1988. On January 1, 1989, the Trust became exempt from federal and Minnesota corporate income taxes. For years 1989 and thereafter, certificate holders are taxed on their allocable share of the Trust's income whether or not the income is distributed. For certificate holder tax purposes, the Trust's income is determined on an annual basis, one-fourth then being allocated to each quarterly record date.

The Trustees provided annual income tax information in January 2006 to certificate holders of record with holdings on any of the four quarterly record dates during 2005. This information included a:

*Substitute Form 1099-MISC* — This form reported one's 2005 allocable share of income from the Trust, distributions declared and any taxes withheld. (Foreign certificate holders received a Form 1042S.)

*Trust Supplemental Statement* — This statement reported the number of units (shares) held on any of the four quarterly record dates in 2005.

*Tax Return Guide* — This guide instructed the certificate holders as to the preparation of their income tax returns with respect to income allocated from the Trust and various deductions allowable.

**NOTE B — SIGNIFICANT ACCOUNTING POLICIES**

***Cash and Cash Equivalents:*** For purposes of the statements of cash flows, the Trust considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**NOTE B — SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Securities:** United States Treasury securities are classified as “held-to-maturity” securities and are carried at cost, adjusted for accrued interest and amortization of premium or discount. Securities listed as noncurrent assets will mature in 2007. Following is an analysis of the securities as of December 31:

	<u>Current</u>		<u>Noncurrent</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Aggregate fair value . . . . .	\$6,124,740	\$4,754,254	\$3,316,594	\$4,566,156
Gross unrealized holding gains . . . . .	(6,490)	(1,882)	—	—
Gross unrealized holding losses . . . . .	<u>47,423</u>	<u>20,872</u>	<u>32,736</u>	<u>33,258</u>
Amortized cost basis . . . . .	6,165,673	4,773,244	3,349,330	4,599,414
Accrued interest . . . . .	<u>44,072</u>	<u>15,119</u>	<u>42,354</u>	<u>20,120</u>
	<u>\$6,209,745</u>	<u>\$4,788,363</u>	<u>\$3,391,684</u>	<u>\$4,619,534</u>

**Mineral and Surface Lands:** Mineral and surface lands are carried at amounts which represent, principally, either cost at acquisition or values on March 1, 1913. The value of the merchantable ore deposits was established on March 1, 1913, for federal income tax purposes. No value has been estimated or recorded for taconite deposits held on March 1, 1913, since they were not then thought to be merchantable. The cost of surface lands acquired to facilitate mining operations was amortized (noncash expense) in the amounts of \$209,220, \$208,200 and \$208,200 for the years 2005, 2004 and 2003, respectively (see Note C).

**Royalty Income:** Royalties from mineral leases (with cancellation terms varying from six months to one year) are taken into income as earned. Certain leases provide the mining companies the ability to offset excess royalties due on future production, if any and when mined, against minimum royalties paid in prior periods. Accumulated minimum royalties amounted to \$3,288,083 on December 31, 2005, and \$2,496,209 on December 31, 2004.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Earnings per Share:** Earnings per share are determined by dividing net income for the period by the number of weighted-average shares of beneficial interest outstanding. Basic and diluted weighted-average shares outstanding were 1,500,000 as of December 31, 2005, 2004 and 2003.

### NOTE C — LAND ACQUISITION

A mining agreement dated January 1, 1959, with United States Steel Corporation provides that one-half of annual earned royalty income, after satisfaction of minimum royalty payments, shall be applied to reimburse the lessee for a portion of its cost of acquisition of surface lands overlying the leased mineral deposits, which surface lands are then conveyed to the Trustees (see Note B). There are surface lands yet to be purchased, the costs of which are yet unknown and will not be known until the actual purchases are made.

### NOTE D — PRINCIPAL CHARGES ACCOUNT

Pursuant to the Court Order of November 29, 1982, the Trustees were directed to create and maintain an account designated as “Principal Charges.” This account constitutes a first and prior lien of certificate holders on any property transferable to the reversioner and reflects an allocation of beneficiaries’ equity between the certificate holders and the reversioner. This account is neither an asset nor a liability of the Trust. Rather, this account maintains and represents a balance which will be payable to the certificate holders of record from the reversioner at the end of the Trust. The balance in this account consists of attorneys’ fees and expenses of counsel for adverse parties pursuant to the Court Order in connection with litigation commenced in 1972 relating to the Trustees’ powers and duties under the Trust Agreement and the costs of homes and surface lands acquired in accordance with provisions of a lease with United States Steel Corporation, net of an allowance to amortize the cost of the land based on actual shipments of taconite and net of a credit for disposition of tangible assets. Following is an analysis of this account as of December 31:

	<u>2005</u>	<u>2004</u>
Attorneys’ fees and expenses .....	\$ 1,024,834	\$ 1,024,834
Cost of surface lands .....	5,817,965	5,713,565
Cumulative shipment credits .....	(1,460,774)	(1,304,692)
Asset disposition credits .....	<u>(57,950)</u>	<u>(57,950)</u>
Principal Charges account .....	<u>\$ 5,324,075</u>	<u>\$ 5,375,757</u>

Upon termination of the Trust, the Trustees shall either sell tangible assets or obtain a loan with tangible assets as security to provide monies for distribution to the certificate holders in the amount of the Principal Charges account balance.

## NOTE E — PENSION PLAN

The Trust has a noncontributory defined benefit plan which covers all employees. The Trustees are not eligible for pension benefits under the plan based on services as Trustees. A summary of the components of net periodic pension cost for 2005, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Service cost .....	\$ 214,125	\$ 117,426	\$ 92,219
Interest cost .....	282,728	210,396	214,006
Expected return on assets .....	(300,686)	(303,219)	(260,583)
Net amortization .....	<u>147,526</u>	<u>5,764</u>	<u>38,648</u>
Net pension cost .....	<u>\$ 343,693</u>	<u>\$ 30,367</u>	<u>\$ 84,290</u>

Weighted-average assumptions used in the measurement of the benefit obligation as of December 31 and the net periodic pension cost for the years ended December 31 were:

	<u>2005</u>	<u>2004</u>
Discount rate for benefit obligation, pre-termination of Trust ...	5.75%	5.75%
Discount rate for benefit obligation, post-termination of Trust ..	4.75%	5.75%
Discount rate for net periodic pension cost .....	5.75%	6.25%
Rate of compensation increase .....	3.50%	3.50%
Expected long-term return on plan assets .....	7.50%	7.50%

The determination of the discount rate is based on a high quality bond yield curve that approximates the expected cash flow payouts of the plan, coupled with a comparison to the Moody's Aa corporate bond rate. The determination of the rate of compensation increase is based on historical salary adjustment averages and the Trustees' expectations of future increases. The determination of the expected long-term return on plan assets is based on historical returns of the various asset categories included in the plan's portfolio and a consideration of the Trust's termination date.

The following table sets forth the change in projected benefit obligation:

	<u>2005</u>	<u>2004</u>
Projected benefit obligation at January 1 .....	\$3,946,433	\$3,487,979
Service cost .....	214,125	117,426
Interest cost .....	282,728	210,396
Actuarial loss .....	1,159,961	389,145
Plan amendment .....	157,219	—
Benefit payments .....	<u>(256,599)</u>	<u>(258,513)</u>
Projected benefit obligation at December 31 .....	<u>\$5,503,867</u>	<u>\$3,946,433</u>

**NOTE E — PENSION PLAN (continued)**

The following table sets forth the change in the fair value of plan assets:

	<u>2005</u>	<u>2004</u>
Fair value of plan assets at January 1 .....	\$4,001,377	\$3,818,748
Contributions .....	257,706	161,511
Actual return on plan assets .....	153,233	279,631
Benefit payments .....	<u>(256,599)</u>	<u>(258,513)</u>
Fair value of plan assets at December 31 .....	<u>\$4,155,717</u>	<u>\$4,001,377</u>

The future benefit payments from the plan for the years 2006 through 2010, inclusive, are estimated to be as follows:

2006 .....	\$227,744
2007 .....	205,520
2008 .....	185,805
2009 .....	168,325
2010 .....	152,877

The future benefit payments from the plan for the period 2011 through 2015, inclusive, are estimated to be \$1,119,957 in aggregate. The 2006 contribution to the plan is estimated to approximate \$260,000; however, said amount will be recalculated upon the completion of the plan's annual actuarial valuation performed as of the plan's fiscal year-end, March 31.

The following table sets forth the plan's funded status and amounts recognized in the balance sheets at December 31:

	<u>2005</u>	<u>2004</u>
Accumulated benefit obligation .....	\$ 4,031,851	\$2,982,757
Effect of future compensation increases .....	<u>1,472,016</u>	<u>963,676</u>
Projected benefit obligation .....	5,503,867	3,946,433
Fair value of plan assets .....	<u>4,155,717</u>	<u>4,001,377</u>
Plan assets (less than) in excess of benefit obligation .....	(1,348,150)	54,944
Unrecognized net loss .....	2,046,271	886,383
Unrecognized prior service cost .....	<u>157,219</u>	<u>—</u>
Prepaid pension expense .....	<u>\$ 855,340</u>	<u>\$ 941,327</u>

**NOTE E — PENSION PLAN (continued)**

The following table sets forth the plan's weighted-average asset allocations by category as of December 31:

	<u>2005</u>	<u>2004</u>
Equity securities .....	52%	55%
Debt securities .....	43%	39%
Other (cash, money market, accrued income) .....	<u>5%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

The investment policy of the plan is to have up to approximately 55% invested in an equity index fund and the remaining monies invested in fixed income (debt) securities and cash.

**NOTE F — INCOME TAXES**

The Trustees filed an election under Section 646 of the Tax Reform Act of 1986, as amended. As discussed in Note A, beginning in 1989 the Trust is no longer subject to federal or Minnesota corporate income taxes, provided the requirements of Section 646 are met. The principal requirements are:

- The Trust must be exclusively engaged in the leasing of mineral properties and activities incidental thereto.
- The Trust must not acquire any additional property other than permissible acquisitions as provided by Section 646.

If these requirements are violated, the Trust will be treated as a corporation for the taxable year in which the violation occurs and for all subsequent taxable years. Since the election of Section 646, the Trust has remained in compliance with these requirements.

**NOTE G — LEASE COMMITMENTS**

The Trust leases office facilities in Saint Paul, Minnesota. These leases include various renewal options and exclude any contingent rental provisions. Rental expense for these operating leases amounted to \$61,823 in each of the years 2005, 2004 and 2003.

**REPORT OF ERNST & YOUNG LLP,  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM,  
ON AUDIT OF FINANCIAL STATEMENTS**

The Trustees  
Great Northern Iron Ore Properties

We have audited the accompanying balance sheets of Great Northern Iron Ore Properties as of December 31, 2005 and 2004, and the related statements of income, beneficiaries' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Northern Iron Ore Properties at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Great Northern Iron Ore Properties' internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated January 27, 2006, expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Minneapolis, Minnesota  
January 27, 2006

**REPORT OF ERNST & YOUNG LLP,  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM,  
ON MANAGEMENT’S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Trustees  
Great Northern Iron Ore Properties

We have audited management’s assessment, included in the accompanying Management’s Report On Internal Control Over Financial Reporting, that Great Northern Iron Ore Properties maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“the COSO criteria”). Great Northern Iron Ore Properties’ management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of Great Northern Iron Ore Properties’ internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (3) provide reasonable assurance regarding prevention or timely detection of

unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Great Northern Iron Ore Properties maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Great Northern Iron Ore Properties maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 financial statements of Great Northern Iron Ore Properties, and our report dated January 27, 2006, expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Minneapolis, Minnesota  
January 27, 2006

# GREAT NORTHERN IRON ORE PROPERTIES

## SUMMARY OF SHIPMENTS

No.	Mine	Ownership Interest	Full Tons Shipped			Total to January 1, 2006
			2005	2004	2003	
1.	Mahoning .....	100%	1,110,454	1,047,642	501,289	156,957,758
2.	Ontario 100% .....	100%	919,954	1,391,614	680,184	11,739,986
3.	Ontario 50% .....	50%	625,041	1,343,700	2,356,994	22,172,898
4.	L & W/Leetonia .....	50%	60,021	—	—	8,825,656
5.	Section 18 .....	100%	46,053	29,645	3,612	27,997,159
6.	Mississippi #3 .....	100%	576,157	396,194	76,571	4,878,486
7.	Minntac .....	100%	<u>5,335,518</u>	<u>4,958,405</u>	<u>6,153,688</u>	<u>58,953,247</u>
			8,673,198	9,167,200	9,772,338	291,525,190
	Shipments from inactive mines and those exhausted, surrendered or sold prior to this year .....		—	—	—	<u>356,099,477</u>
	<b>TOTAL</b> .....		<u><u>8,673,198</u></u>	<u><u>9,167,200</u></u>	<u><u>9,772,338</u></u>	<u><u>647,624,667</u></u>

No.	Operating Interest
1-4	Hibbing Taconite Company
5-6	United States Steel Corporation — Keewatin Taconite Company
7	United States Steel Corporation — Minntac

## NOTES

**GREAT NORTHERN IRON ORE PROPERTIES**  
W-1290 FIRST NATIONAL BANK BUILDING  
332 MINNESOTA STREET  
SAINT PAUL, MINNESOTA 55101-1361

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